

UNITED STATES BANKRUPTCY COURT
NORTHERN DISTRICT OF NEW YORK

In re:

CENTERSTONE LINEN SERVICES, LLC,
ATLAS HEALTH CARE LINEN SERVICES CO., LLC,
ALLIANCE LAUNDRY & TEXTILE SERVICE, LLC,
ALLIANCE LAUNDRY AND TEXTILE SERVICE OF
ATLANTA, LLC, and
ALLIANCE LTS WINCHESTER, LLC
*d/b/a Clarus Linen Systems*¹

Debtors.

)
)
) Case Nos.
) 18-31754 (main case)
) 18-31753
) 18-31755
) 18-31756
)
) 18-31757
)
) Chapter 11 Cases
) Jointly Administered
)
)

**RESERVATION OF RIGHTS OF HSBC BANK USA, NATIONAL ASSOCIATION
TO DEBTORS' MOTION FOR AN ORDER AUTHORIZING THE SALE OF
SUBSTANTIALLY ALL OF ALLIANCE'S ASSETS FREE AND CLEAR OF ALL
LIENS, CLAIMS, INTERESTS AND ENCUMBRANCES**

HSBC Bank USA, National Association ("HSBC Bank"), by its attorneys Philips Lytle LLP, hereby files this reservation of rights ("Reservation of Rights") to the Debtors' motion authorizing the sale of substantially all of Alliance's assets ("Sale"), as set forth herein, to Crown Health Care Laundry Services, LLC, free and clear of all liens, claims, interests and encumbrances [Docket No. 34] ("Motion"). In support of this Reservation of Rights, HSBC Bank respectfully states as follows:

BACKGROUND

1. The Purchased Assets² are encumbered by the first-priority security interests and liens granted to HSBC Bank, pursuant to (a) that certain Loan and Security

¹ The Debtors in these chapter 11 cases, along with the last four digits of each Debtor's federal tax identification number, are: Centerstone Linen Services, LLC d/b/a Clarus Linen Systems (5594) ("Centerstone"); Atlas Health Care Linen Services Co., LLC d/b/a Clarus Linen Systems (2681) ("Atlas"); Alliance Laundry & Textile Service, LLC d/b/a Clarus Linen Systems (8284) ("Alliance"); Alliance Laundry and Textile Service of Atlanta, LLC d/b/a Clarus Linen Systems (4065) ("Atlanta"); and Alliance LTS Winchester, LLC d/b/a Clarus Linen Systems (0892) ("Winchester").

Agreement dated October 29, 2013 (“Prepetition Loan Agreement”) as security for the repayment of the Debtors’ outstanding obligations arising thereunder, which totaled approximately \$22 million (“Prepetition Obligations”) as of the Petition Date (such liens, the “Prepetition Liens”) and (b) that certain Senior Secured Super-Priority Debtor-in-Possession Loan and Security Agreement dated December 20, 2018 (“DIP Loan Agreement”) securing the repayment of the Debtors’ postpetition obligations arising thereunder (“DIP Obligations” and the liens securing the DIP Obligations, the “DIP Liens”).³

2. On December 21, 2018, the Court entered an Order approving the Debtors’ entry into the DIP Loan Agreement on an interim basis [Docket No. 33] (“First Interim Order”).

3. The DIP Loan Agreement requires that HSBC Bank consent to the sale of the Purchased Assets. *See* DIP Loan Ag’t §§ 10.20(h), 8.1(ii). Bankruptcy Code section 363(f) also requires HSBC Bank’s consent to sell the Purchased Assets free and clear of the Prepetition Liens and DIP Liens. 11 U.S.C. § 363(f).

4. On January 11, 2019, the Court entered the *Second Interim Order on Debtors’ Motion for Postpetition Financing* [Docket No. 125] (“Second Interim Order”), extending the relief granted in the First Interim Order to January 23, 2019.

5. On January 25, 2019, the Court entered the *Third Interim Order on Debtors’ Motion for Postpetition Financing* [Docket No. 158] (“Third Interim Order”), extending the relief granted in the Second Interim Order to February 1, 2019.

² Capitalized terms used but not defined herein shall the meaning assigned to them in the Motion.

³ For greater detail regarding the Prepetition Obligations and the Prepetition Liens, please see Paragraphs A through E of the First Interim Order, as modified by the Fourth Interim Order.

6. On February 4, 2019, the Court entered the *Fourth Interim Order on Debtors' Motion for Postpetition Financing* [Docket No. 175] ("Fourth Interim Order" and collectively with the First Interim Order, the Second Interim Order, and the Third Interim Order, the "Interim DIP Order") extending the relief granted in the Third Interim Order to February 13, 2019 and amending certain provisions of the First Interim Order. The hearing to consider entry of a final order approving the Debtors' entry into the DIP Loan Agreement ("Final DIP Order") is scheduled for February 13, 2019.

7. On January 15, 2019, the Court entered an Order approving, among other things, the Debtors' proposed bidding procedures for the Purchased Assets [Docket No. 134] ("Bid Procedures Order"). Pursuant to the Bid Procedures Order, the hearing to consider approval of the Sale is scheduled for February 13, 2019 ("Sale Hearing"). The deadline to submit objections to the approval of the Sale is February 12, 2019, at noon.

8. Notwithstanding the deadline to object to the Motion, the Debtors did not provide the parties in these cases, including HSBC Bank, with draft proposed orders approving the sales of the Purchased Assets (collectively, the "Draft Sale Orders") until the early morning hours of February 12.

RESERVATION OF RIGHTS

9. HSBC Bank submits that a single morning is insufficient time to review the terms of a single proposed order approving the sale of the Purchased Assets, let alone two, especially where the parties in interest, including HSBC Bank and the Committee, continue negotiating over the appropriate distribution of the proceeds of the Sale. Moreover, the terms of the Draft Sale Orders will be directly relevant to the terms of the Final DIP Order. Thus, HSBC Bank requires sufficient time to review the Draft Sale

Orders, to finalize the terms of the distribution of proceeds of the Sale, to confirm that the terms of the Sale are acceptable to HSBC Bank, as required by the DIP Loan Agreement and Bankruptcy Code Section 363(f), and to ensure that the Draft Sale Orders are in conformance with the proposed Final DIP Order.

10. Accordingly, HSBC Bank hereby expressly reserves it right to supplement and/or amend this Reservation of Rights and to assert any additional objections to the entry of the Draft Sale Orders or to the Sale based upon HSBC Bank's review of the Draft Sale Orders and the pending negotiations between the parties-in-interest in these chapter 11 cases. Nothing in this Reservation of Rights is intended to be, or should be construed as, a waiver by HSBC Bank of any of its rights under the Prepetition Loan Agreement, DIP Loan Agreement, the Interim DIP Order, the Bankruptcy Code, or applicable law. HSBC Bank expressly reserves all such rights, including, without limitation, the right to: (a) supplement and/or amend this Reservation of Rights, (b) to assert any additional objections with respect to the entry of the Draft Sale Orders and/or the distribution of proceeds of the Sale, and (c) assert any further objections as it deems necessary or appropriate.

Dated: February 12, 2019

PHILLIPS LYTTLE LLP

By /s/ Angela Z. Miller
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